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THE ONTARIO PRE-BUDGET CONSULTATION PROCESS

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INTRODUCTION

Ontario has been the provincial pioneer in formal pre-budget consultations. Other provinces have experimented with variations on this consultation process, but only the federal model parallels Ontario's all-party legislative committee.

The hearings of the Standing Committee on Finance and Economic Affairs have provided a public forum for a broad cross-section of Ontarians to discuss their financial and economic concerns with legislators on an annual basis. These hearings are on the public record for the benefit of the government and Ministry of Finance officials involved in the annual budget process. The composition of the Committee's witness list has varied over the years. Generally, it has included private citizens; representatives from the MUSH sector (municipalities, universities and colleges, schools, and hospitals); organized labour; research bodies and economic forecasters; business, particularly from the financial sector; numerous interest groups and organizations (e.g., associations, federations, councils, coalitions, etc.); as well as the Minister of Finance and ministry officials.

These hearings can also be seen as part of the broader process of ensuring that governments are held accountable for the decisions they make and public funds they spend. Part of this financial oversight function is administrative; for example, Management Board's Directives and Guidelines, reports by the Provincial Auditor, and a myriad of other ministry benchmarks, such as the recent introduction of ministry-based business planning. But, traditionally the Legislature is seen to be the main forum through which governments are held accountable. Other standing committees; namely, Estimates and Public Accounts also play a part in overseeing and promoting financial accountability. Companion Current Issue Papers have explored their role in this process.

The Treasurer of Ontario [now referred to as the Minister of Finance] introduced the idea of pre-budget consultations in July 1985, and in October of that year released a ministry paper on the subject.¹ It was decided to proceed with annual consultations. In 1986 the Standing Committee of Finance and Economic Affairs was created for this purpose and had its first set of hearings in early 1987. This was a significant innovation in the Canadian parliamentary tradition, as it started to open what had been essentially a closed budget process.

This paper provides an overview of the pre-budget process in Ontario over its first decade. It addresses the following subject areas:

- early discussions on the reform of the budget process in Ontario, dating from 1980;
- the Minister's 1985 proposal for public consultation in the budget process;
- the debate surrounding the importance of public consultation versus the need to maintain a level of budget secrecy;
- the creation of the Standing Committee on Finance and Economic Affairs in 1986 to provide a forum for the hearings;

- the rationale and format of the ministry's pre-budget briefing documents for participants in the process; and
- a profile of the Committee's reports (1990-1998).

This paper also provides a descriptive overview of the Committee's involvement in the budget process over the past decade, with a focus on the 1990s. Although it does not provide a comprehensive evaluation of the Committee process, it considers certain questions, which relate to the Committee's overall contribution to financial accountability.

- Have the Committee's recommendations provided meaningful input to the provincial budget process?
- Do Ontarians feel that their participation before the Committee has improved the budget process?
- Is the government more accountable, in its management of public funds, as a result of these hearings?

CONSULTATION IN THE FISCAL PLANNING CYCLE

Each year, late in the summer, the provincial government begins to prepare for the spring Budget. The following chart prepared by the Ministry of Finance's Budget Secretariat provides an overview of the main steps in the annual budget preparation process. The Committee's hearings are now an integral part of this process.

The Annual Budget Process



Source: Ontario, Ministry of Finance, Budget Secretariat, November 1998.

The report on the pre-budget consultations is incorporated in the chart as a component under the "Tax and Non-Tax Revenue Strategy" stream. This feeds into the "Final Strategic Review" immediately prior to the budget being finalized.

Public Input to the Minister of Finance

Historically, the Minister consulted with various delegations on an *in camera* basis. It was not widely known that these sessions were held, and "internal" government participation was usually limited to the Minister and ministry staff. Delegations were "invited by the Treasurer to share their views."² These meetings were relatively brief, in the order of thirty minutes in length, and the individuals or groups generally addressed

their specific areas of interest. This consultation process was largely informal and *ad hoc* in nature.

Meetings usually include senior representatives of the organizations and Treasury officials. The format of the sessions varies. The group may come prepared with a written brief containing recommendations, which, generally, are not made public. Discussions can be wide-ranging and touch upon a variety of issues related to provincial fiscal policy and the general state of the economy as viewed by the organization and the Government.³

While the Treasurer can engage in general discussion with groups, he or she cannot reveal, or even hint at, possible tax changes, for fear of breaking the rules of budget secrecy. This does not mean that such consultations have no value for either side. Useful information is often exchanged, and certainly a sense of interest groups' fears and concerns can be and are obtained.⁴

There has been a perception that the Minister's meetings were restrictive, in terms of the type of delegation invited to attend, in part because Ministers have not provided documentation on the participants or on the content of these meetings.⁵ However, the scope of these consultations has widened over the years: "While pre-budget consultations were once confined mainly to business groups, by the 1980s they included both the business and the social sides of the political continuum. For the Liberals' first budget in 1985, over 80 groups, including policy institutions, manufacturing, the financial community, economists, labour, community services, and student and women's groups were involved."⁶ The Honourable Robert Nixon provided a list of the groups that had attended *in camera* meetings that year for the first time. Over the decade the Minister has continued to meet with individuals and delegations to discuss budgetary matters, which has paralleled the Committee's agenda in some respects. This has meant that, in some cases, delegations have had *in camera* meetings with the Treasurer, as well as public meetings with the Committee, sometimes on the same day.

In addition to these meetings, in the early 1990s the government experimented with other forms of consultation. "Roundtable discussions" were held during 1991-92 as part of an attempt to bring participants from the various sectors together to achieve an understanding on budget matters, particularly the challenge of competing interests. In the 1992 *Ontario Budget* the Minister made reference to the time consuming nature of this consultative process:

We asked Ontarians to let us know their opinions. More than 16,000 people called or wrote to request copies of the pre-Budget materials published in January. I

received more than 4,300 letters and submissions with advice on the Budget. My Cabinet colleagues and I met with 225 different groups.⁷

Pre-budget hearings have been held by the Committee every year since 1987, with the exception of 1998. Due to the prorogation of the House in December 1998, Committees were not authorized to meet during the Winter 1999. The government held its own set of hearings and reported to the Minister of Finance. Documentation was not released on these government hearings.

REFORMING ONTARIO'S BUDGET PROCESS

The role of legislative committees in promoting financial accountability has been considered in various reports such as the Ontario Commission on the Legislature (Camp Commission) and the Ontario Standing Committee on Procedural Affairs.⁸ The Camp Commission initiated its study on the functioning of the Legislative Assembly in 1972. Much of the discussion on the committee system at the time concentrated on the importance of an effective process to assist with the workload in the House. The Commission recommended specialist permanent standing committees and reforming the Estimates review process.

The 1980 report of the Standing Committee on Procedural Affairs, entitled "Proposals for A New Committee System," called for a more intensive role for committees in the fiscal accountability process. It was suggested that the "Committees are ... ideal vehicles for such detailed study and specialized debate" as they:

- provide Members with the opportunity of seeking advice and information from expert witnesses and from public servants;
- enable the public to become actively involved in the parliamentary process through public hearings; and
- the expertise derived in this way not only benefits individual Members, but also serves to produce more informed debates in the House.⁹

The Procedural Affairs Committee concluded that "financial accountability to Parliament is extremely limited" and furthermore that Parliament is not fully examining expenditures in advance of the actual disbursements.¹⁰ It recommended as follows:

A Finance and Economic Affairs Committee should be established ... [with] broad terms of reference to review Ontario's fiscal and economic policies and to study budget papers, financial documents, tax legislation and any related matters.¹¹

Minister's Discussion Paper (1985)

The 1985 Ontario Budget was accompanied by a discussion paper entitled *Reforming the Budget Process* that contained "proposals to increase the involvement of the Legislature in the Budget process and improve participation in the pre-budget consultations."¹² The new government had a stated commitment to openness and this initiative was seen to be a fundamental step to achieving an enhanced level of dialogue on provincial finances. As opposed to the exclusively *in camera* consultation sessions with the Minister, the proposal centred on creating a standing committee and releasing background financial information to contribute to informed and open debate on the budget. "It would provide a forum for the Legislature to develop recommendations on economic and fiscal issues - both expenditure issues and revenue issues - for input to the government in the development of the budget."¹³

Several benefits were identified in the proposed pre-budget hearing format:

- briefs prepared by the groups would be tabled and *Hansard* of the consultations would be available to the public;
- Members of the Committee would have the opportunity to bring varying perspectives to these discussions on a wide range of issues;
- the Committee could encourage participation from groups and individuals not previously involved in the budget process;
- the Committee could hold hearings across the province increasing access, and promoting broader media coverage;
- the Committee would be responsible for the review of tax legislation, and related matters;
- the Committee could synthesize the views expressed and provide recommendations to the government;¹⁴ and
- a multi-year framework would be provided through the ministry's pre-budget background materials, which would assist major transfer payment recipients' in their financial planning.¹⁵

The following initiatives preceded the Committee's first set of hearings in early 1987:

- the publication of the names of the delegations that met with the Minister during the 1985 *in camera* consultations; and
- the release of an expanded financial information package to supplement existing public documents, such as the *Ontario Finances, Financial Report* and the *Public Accounts*. The Minister stated that "these are important reforms which will assist future budgets to be fully responsive to the needs of Ontarians."¹⁶

THE PRE-BUDGET MANDATE AND HEARINGS

The Standing Committee on Finance and Economic Affairs was established in 1986. It is an all-party committee of the Legislature, chaired by a government member. According to the *Standing Orders*, the Committee is empowered to "consider and report to the House its observations, opinions and recommendations on the fiscal and economic policies of the Province and to which all related documents shall be deemed to have been referred immediately when the said documents are tabled."¹⁷

In late 1986 the Committee began to prepare for the 1987 pre-budget consultation hearings through its consideration of the financial documentation provided by the government. It was envisioned that the annual hearings would provide a framework for discussion of financial matters:

a forum through which members of the public can express their views on Ontario's economy and the upcoming budget, and provide Members of the Committee with an opportunity to deliberate on the priorities for the province. As an all-party Committee, it endeavours to make observations and recommendations that reflect the consensus of its Members.¹⁸

This consultation process was to include canvassing public opinion on financial matters related to the provincial budget process (e.g., grants to transfer recipients) through hearings at various centres across the province and preparing a pre-budget report on a timely basis. The objective was to provide an opportunity for individuals and groups around the province, not previously included in the budget process, to have a role in the discussions.¹⁹ However, rather than travelling to various centres, it has become customary to schedule the hearings for a two week period in February at Queen's Park.

Ministry Data and Selection of Witnesses

In preparation for the hearings, the Committee meets to agree on the witness list and agenda, and to address the technical background information provided by the Ministry of Finance in the *Ontario Economic Outlook and Fiscal Review*.

Public Finance Data

The 1985 reform proposal suggested that the "provision of a comprehensive and formalized statement on Ontario's economic and financial outlook at the beginning of the budget consultation cycle would assist in focusing debate on appropriate fiscal policy for the Province."²⁰

The case was made to release information early in the autumn each year, addressing the financial needs of the major transfer recipients. "The need for the announcement of a large portion of provincial expenditures well before the beginning of the fiscal year . . . [was] an important consideration in the design of the budget process."²¹ Moreover, these

recipients need information on provincial grant levels to prepare their financial plans by January, well in advance of the provincial budget.²² To meet these needs, the province would be required to decide on a significant percentage of the budget allocations early in the process.

In 1986, the ministry released its first background paper on this subject, entitled the *Economic and Fiscal Review*. Because of its grey cover, subsequent editions were referred to as the *Grey Book*. The initial format was continued through to 1989. In 1990 the government issued an abbreviated document entitled *Ontario's Economic Outlook*.²³ The ministry prepared a single document in 1991 entitled *Ontario Economic Outlook* which was a major departure from previous versions as it included detailed tables on the labour market and compensation data, sectoral and regional economic data, and macroeconomic indicators. Subsequent editions (1992 to 1996) have continued this practice, including information on labour force, unemployment, employees by sector growth in real GDP, etc. In 1992, the government released the *Ontario Fiscal Outlook* and the *Ontario Economic Outlook*. Over the next two years, the government reverted to a single volume, the *Ontario Economic Outlook*. In 1995 it released the *Fiscal and Economic Statement* and in 1996, 1997, and 1998 the title was changed again to the *Ontario Economic Outlook and Fiscal Review*.

During the past decade, these ministry documents have provided varying levels of detail, depending on the issues of the day. The following areas have been addressed in recent years:

- annual economic performance and forecasts;
- medium-term fiscal outlook and issues;
- revenue profiles and developments in revenue policy;
- interprovincial tax rate comparisons;
- expenditure profile (e.g., health care and transfer payments);
- spending control (e.g., expenditure indicators);
- debt level and debt financing (e.g., Hydro borrowing and credit worthiness);
- federal-provincial funding programs;
- provincial transfers;
- labour markets patterns;
- manufacturing investment climate (recent performance and competitiveness);
- sectoral outlook (agriculture, resources and resource-based industries, transportation equipment, investment goods, consumer products industries, construction, utilities, service sector, etc.);
- the international economy (e.g., U.S. trade), etc.

Suggestions have been made to revise these documents. For example, in a presentation by the C.D. Howe Institute to the Committee, it was suggested that the *Fiscal Outlook*

should be presented in a standardized format, similar to the budget document, to permit a comparison of projections, and that projections should be provided on five-year outlooks.²⁴ The Fair Tax Commission recommended that Ontario should establish a central agency responsible for maintaining government databases on provincial finances and that this information should be available to the public, subject to privacy provisions.²⁵

The introduction of ministry business planning in 1996 provided a new source of information for the Committee in its pre-budget consultations. There is an important linkage between these plans and the ministries' accountability systems, which is described in the following quote:

These [business] plans define what the ministries' roles should be. They explore the most cost-effective ways to carry out those roles. And they set proposed performance standards so government and the public can judge how effectively ministries are doing their jobs.

Central to this approach is the principle of accountability to the shareholder [taxpayers of Ontario].²⁶

The government will work with the legislature to integrate business planning and performance measurement into ministers' accountability to the legislature. This will enable the legislature to effectively review ministries' spending authorities.²⁷

Witness Selection

During the first few years, the Committee's witness list was prepared largely on the basis of responses to the Committee's newspaper advertisements for the hearings as well as Members' suggestions. It is now customary for the Committee to prepare its witness list from groups and individuals identified by the caucuses.

The Minister of Finance and ministry staff are the first witnesses presenting an overview of the Ontario economy with a commentary on the provincial revenues and expenditures.²⁸ Expert witnesses on the economy follow the Minister. These professionals from the financial community who have included forecasters, for example, have contributed to the debate through commentary on the direction of the provincial economy. These discussions have offered alternative perspectives to the Ministry of Finance's conclusions and forecasts. Over the past decade, the delegations have included representatives from unions, business associations, transfer payment recipients from the MUSH sector, and private individuals.

Committee Reports

The Standing Committee on Finance and Economic Affairs' pre-budget process has become an integral part of the Ontario political scene. Each year at the conclusion of the hearings, the Committee prepares a report on its observations, conclusions and recommendations, which is tabled in the Legislature. In recent years, the outline and contents of the Committee's reports have gradually evolved into a standardized format with common themes. For example, in the 1998 report, the Committee addressed the following subject areas, followed by a list of recommendations:

- commentary by the Minister of Finance and ministry staff;
- macroeconomic issues and fiscal matters;
- taxes (e.g., sales tax harmonization);
- transfer partners (municipalities, colleges and universities, schools and hospitals);
- spending programs (e.g., infrastructure, social, health, justice and agriculture);
- sectoral activities (e.g., construction and transportation, energy, tourism and hospitality, and finance); and
- job creation.²⁹

The following table provides an overview of the Committee reports during the 1990s with respect to the number of witnesses, recommendations and dissenting opinions. When the Committee has not been able to reach a consensus on its observations and recommendations, dissenting opinions were prepared by the Official Opposition and Third Party and appended to the report.

PROFILE: 1990 - 1998 PRE-BUDGET REPORTS

Year	Number of Delegations and Written Submissions*	Number of Recommendations	Government Caucus Supplements and Dissenting Opinions (Official Opposition and Third Party)**
1990	41	34	PC and NDP
1991	60	59	Liberal and PC
1992	27	None	Gov't Caucus, Liberal and PC
1993	69	5	Liberal and PC
1994	40	2	Gov't Caucus, Liberal and PC
1995	60	9	Gov't Caucus, Liberal and PC
1996	77	13	Liberal and NDP
1997	58	11	Liberal and NDP
1998	85	20	Liberal and NDP

* This column represents actual delegations that appeared before the Committee and secondly groups that were not able to attend, but submitted a brief instead.

** Note: Supplementary materials appended to the Committee's report by the Official Opposition and Third Party, for example, Appendix C in the *Pre-Budget Consultation 1998*, entitled "Liberal Recommendations to the Standing Committee on Finance and Economic Affairs on the 1998 Provincial Budget".

Although the reports have not been unanimous in recent years, the Committee recommendations and those of the dissenting opinions have tended to focus on similar themes. The following recommendations taken from a selection of Committee reports provide a sense of the content and direction of these discussions:

- *The government should fulfill its commitment to reducing personal income taxes to stimulate job creation, investment and consumer confidence. (Pre-Budget Consultation Report, 1998)*
- *The government should honour its commitment to reduce the deficit and balance the budget by the fiscal year 2000-2001. (Pre-Budget Consultation Report, 1996).*
- *The government [should] maintain job creation as its number one priority. (Pre-Budget Report, 1995).*
- *The province's financial statements should be presented in as clear and complete a manner as quickly as possible. (Pre-Budget Consultation Report, 1994).*
- *Policy changes specific to a particular sector of economic activity should not be implemented before there has been careful consideration of the effects on that industry and related activities. (Pre-Budget Consultation Report, 1993).*

THE PRE-BUDGET HEARINGS PROCESS IN PRACTICE

The consultative process adopted in Ontario is speculative in nature, rather than agenda setting or reactive. "Speculative consultation occurs when outside groups consult without knowing which policy issues are candidates for inclusion in a scheduled revenue budget. Such consultation is commonplace in budget processes operating under the convention of budget secrecy."³⁰ According to a study by Evert Lindquist, the speculative approach results in a "wish list" rather than focused analysis.³¹ Furthermore, it has been suggested that "advance consultation might have highlighted unanticipated problems and avoided the disruption in tax planning and the uncertainty surrounding business investment decisions that followed [referred to in the 1981 federal budget which were widely criticized at that time, by experts as well as the general public]."³²

On many levels the hearings have been positive, providing an important oversight function for the Legislature and a forum through which the public has been able to articulate its views and concerns on budgetary matters. One academic commentator concluded that "the opening of the budget process to a greater exchange of information and input with the public and the Legislature - can assist in developing budgets that are increasingly reflective of citizens' views."³³

The following are other positive features of the Ontario pre-budget process:

- Through these hearings the Committee Members and the public have established an important consultative step in the budget process.
- The financial information prepared by the Ministry of Finance for distribution in the autumn each year has contributed to informed discussions in Committee.
- Witnesses provide useful information on aspects of the provincial economy (e.g., statistical data, sector profiles, industry surveys, etc.) which has contributed to the overall level of debate. This information may be incorporated in the Committee report.
- The Committee considers the independent analyses of professional financial forecasters as a formal part of the process, in conjunction with the government's economic analysis. The incorporation of these experts has broadened the debate to include competing economic projections.
- Long-range planning matters have been addressed by the Committee in areas such as taxation, wealth generation, international trade agreements, and the implementation of the Premier's Council's recommendations.³⁴
- Transcripts of the proceedings are on the public record.

Although many of the initial objectives articulated in the Treasurer's 1985 reform proposal have been realized, there have been some shortcomings in the process.

- The provincial pre-budget hearings have never started at the beginning of the fall sitting of the Legislature, as initially proposed. By scheduling the hearings during

January and February, the Ministry of Finance's opportunity for considering the Committee's recommendations is limited.

- The Committee has not travelled widely in Ontario to hear delegations in all regions of the province, as originally proposed, although this has been planned for in 2000.
- The Committee has not been able to deliver consensus reports on all occasions.

The tradition of secrecy is accepted in the budget process. The concept of secrecy follows from the British practice of the nineteenth century when the main revenue sources were tariffs and excise taxes.³⁵

The convention under British parliamentary tradition, that the Minister of Finance must ensure the secrecy of the budget's contents until it is tabled in the Legislature, has been a limiting factor in the pre-budget consultation process. The original rationale behind the convention stems from the principle that no one should receive financial gain from prior knowledge of taxation actions.³⁶

Budget secrecy is concerned above all ... with public trust and the accountability of ministers.³⁷

The 1985 discussion paper noted that "the convention of budget secrecy imposes restrictions on open consultations. The proposals ... are intended to minimize the effects of the [secrecy] convention by holding open pre-budget hearings and sharing information."³⁸ Reconciling the notion of open consultation in the budget process and the principle of budget secrecy has been a fundamental issue in any discussion on budget reform.

An open process is essential to the proper design, implementation and understanding of the budget and the initiatives it contains. Yet the ability of governments to seek input from those who will be affected and from the Members of the Legislature they elect to represent them has been constrained by the secrecy that surrounds budget preparation.³⁹

The Minister pointed out that "the process of writing the Ontario Budget has been shrouded in secrecy, with little information available to help people understand the challenges governments faced. This has severely constrained meaningful consultation and broader public consultation on key issues."⁴⁰

A 1992 survey by the C.D. Howe Institute, concluded that "in general the budget [consultation] process in Canada cannot be described as open."⁴¹ The Fair Tax Commission recommended that "Ontario should apply the rule of budget secrecy only to the details of tax changes that might enable an individual to derive financial gain through

prior knowledge.”⁴² In 1991 the Treasurer asked the Standing Committee on Finance and Economic Affairs “to review the conventions of Budget secrecy, with a view to changing what many now agree are outdated secrecy requirements.”⁴³

Finally, how effective have the Committee’s hearings and reports been in determining the content and direction of budgets? No systematic academic research has addressed this question. The Budget Secretariat of the Ministry of Finance has maintained records on the proceedings since 1987, but it has not formally responded to Committee reports, although references have been made in the House to the Committee’s deliberations.⁴⁴ The Committee has not dealt with this aspect of the pre-budget process. The following questions could provide a starting point for future research on the Committee’s practices.

- Has the Legislature generally become more involved in the budget process through the work of the Committee?
- Do Ontarians feel that the pre-budget process has made the budget more inclusive and responsive to public concerns in the 1990s?
- Have the hearings contributed to demonstrated improvements in provincial financial accountability?

CONCLUSION

This paper has described the role of Ontario’s pre-budget hearings in the annual budget process. Through the Standing Committee on Finance and Economic Affairs, Ontarians have had the opportunity to make presentations and to engage in budgetary discussions with Members of the Legislature on the public record. Each year the Committee has prepared an annual report for the Legislative Assembly, with the exception of 1999.

The pre-budget process has contributed in several important ways to the enhancement of financial accountability in provincial politics. Principally, it has added another dimension to the oversight function provided by various committees, for example, the Standing Committee on Estimates and the Standing Committee on Public Accounts.

The Committee’s role in the future depends largely on the extent to which the government, Committee Members and the public see value in the process. Although the pre-budget hearings experience in the past decade has been positive on many levels, there are still matters to be considered.

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